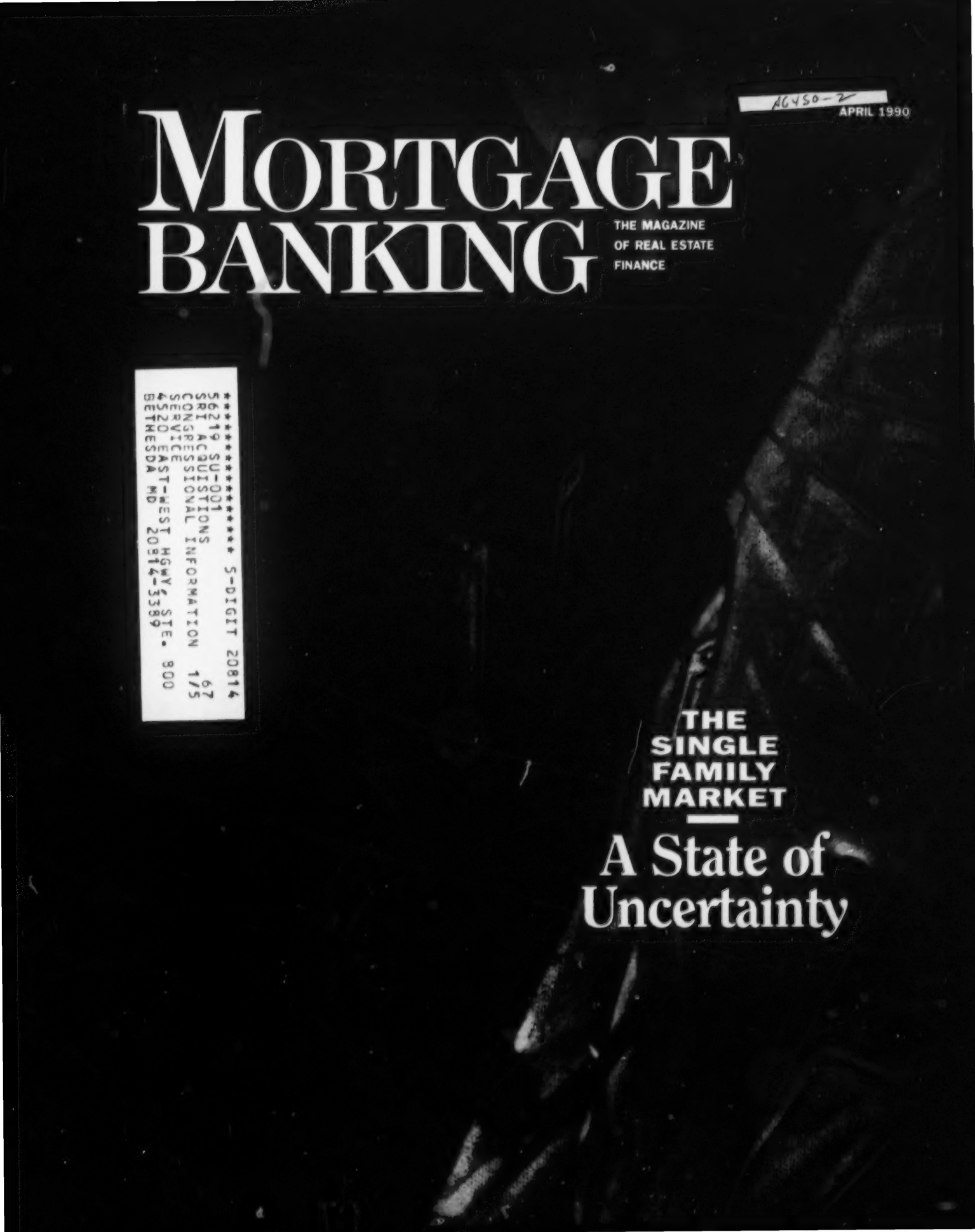
AG450-2

APRIL 1990

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

********** S-DIGIT 20814
S6219 SU-001 67
SRI ACQUISITIONS 1/5
CONGRESSIONAL INFORMATION
SERVICE 800
4520 EAST-WEST HGWY STE.
BETHESDA MD 20814-3389



THE SINGLE FAMILY MARKET

A State of Uncertainty

CONTENTS

APRIL 1990 VOLUME 50 NUMBER 7

COVER:
Single-family
Housing

Different rules for different states. Lenders are seeing more and more of that as mortgage insurers, wholesalers, secondary market agencies and now even FHA are tailoring their underwriting rules to different state economies. Lenders who make loans in many states already are faced with tracking these many sets of changing rules. And the task is tough. If FHA moves toward regional underwriting, the problem will become even more widespread.

14 Who's Who in Wholesale *The big players are pulling in large amounts of new business.* By THOMAS S. LaMALFA

24 Having Fitts at FHA *"To boldly go where no woman has gone before." Those words are inscribed on a model of the Star Trek spaceship USS Enterprise kept on Austin Fitts' desk. As the first woman FHA commissioner, those words are especially appropriate.* By JANET REILLEY HEWITT

35 Branches—Reliable Vehicles or Due for an Overhaul? *Here's how some companies are trying to get top performance out of the classic vehicle for production—the branch office.* By HOWARD SCHNEIDER

44 Hot or Not? *Sometimes analysts will disagree on which housing markets are the hot spots and which ones have cooled.* By DAVID GIVENS

Profile

51 Surviving Small *Here's one niche a small company has found in between the mortgage brokers and the big wholesalers.* By DAVID M. CHELIMSKY

Economics

57 Mid-course Correction *MBA economists have changed their forecast for the year. Mortgage rates are not expected to drift as low as forecasted earlier.* By RICHARD W. PEACH

Residential

61 Loan Quality Made in Heaven *Weeding out the bad loans from the start is critical to preserving heavenly loan quality.* By JAMES C. MILLER

72 Mandatory Home Inspections? *Is it a structurally sound idea or a proposal lacking a foundation?* By DAVID L. SURETTE

Product Analysis

77 The Borrower's Dilemma *Sizing up the relative costs of different loan products can be more scientific than it typically is when borrowers make the call.* By G. STACY SIRMANS

DEPARTMENTS

9 BUSINESS ALERT
11 AUTOMATION
12 LETTERS
80 PEOPLE
83 THE SECONDARY MARKET
85 ECONOMIC TRENDS
90 INDEX TO ADVERTISERS

COVER ILLUSTRATION BY ERIC WESTBROOK

Complexity is thriving

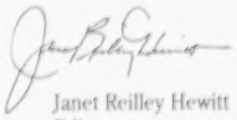
Mortgage lenders crave uniformity. But that's less and less in the cards. Even the federal government mortgage insurance programs that used to foster uniformity are now moving in the opposite direction.

Our interview with FHA Commissioner Austin Fitts reveals that FHA is likely to move to some kind of regional underwriting approach in the near future. What this holds for each lending market is a mystery at this point. But Fitts says it means a loosening as well as a tightening where the economy justifies such moves.

This signals a departure for the government lending market, but it's something that has been a feature of the private mortgage insurance market and the giant secondary market agencies for a long time. To have FHA move to different credit standards for different regions marks the arrival of a new consciousness in federal government programs. It is being driven by the harsh economic reality that in America today, there can be a region in deep recession while neighboring regions are thriving.

The new consciousness at FHA also reflects the new thinking in Washington that is born and bred of the subsistence diet that all federal government programs have been put on because of the deep and lingering federal budget deficit. The thinking at HUD is FHA can't continue to take the kind of financial battering it's taking as a result of regional downturns that push tons of foreclosed properties into its inventory without having some kind of mechanism to respond to these downturns. The losses from FHA's property disposition efforts in such hard-hit regions are heavy and Fitts says the insurance funds cannot endure on a self-sustaining basis without changes to the overall "term and conditions" of the basic FHA insurance program. By this she means changes will be proposed to the down payment amounts, loan limits and premium structure for the FHA single-family program.

So, change appears inevitable. Keeping up with the changes that apply to each state market you lend in will be an ever-increasing challenge. Complexity rather than uniformity appears to be the new order of the day.



Janet Reilley Hewitt
Editor

COMING IN MAY

Some reports on how the secondary mortgage market is handling the great thrift asset sell-off and the outlook for the secondary market in general will be the focus next month. The issue will also examine the Community Reinvestment Act, HUD's reverse annuity mortgage program and the spread of employer-assisted housing programs.

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE

VOLUME 50 NUMBER 7

President
RONNIE J. WYNN, CMB

Executive Vice President
WARREN LASKO

Vice President of Communications
JACQUELINE W. GRUMBACHER

Editor in Chief
JANET REILLEY HEWITT

Deputy Editor
DEBORAH LILLY

Assistant Editor
LADONNA HALE CURZON

Art Director
SARAH CLARKE HOLLANDER

Art Production
LINDA M. ROLLA

Advertising Sales Manager
TERRI CROVATO

Advertising Assistant
JUDITH VALLANO

Circulation
BENNIE MURPHY

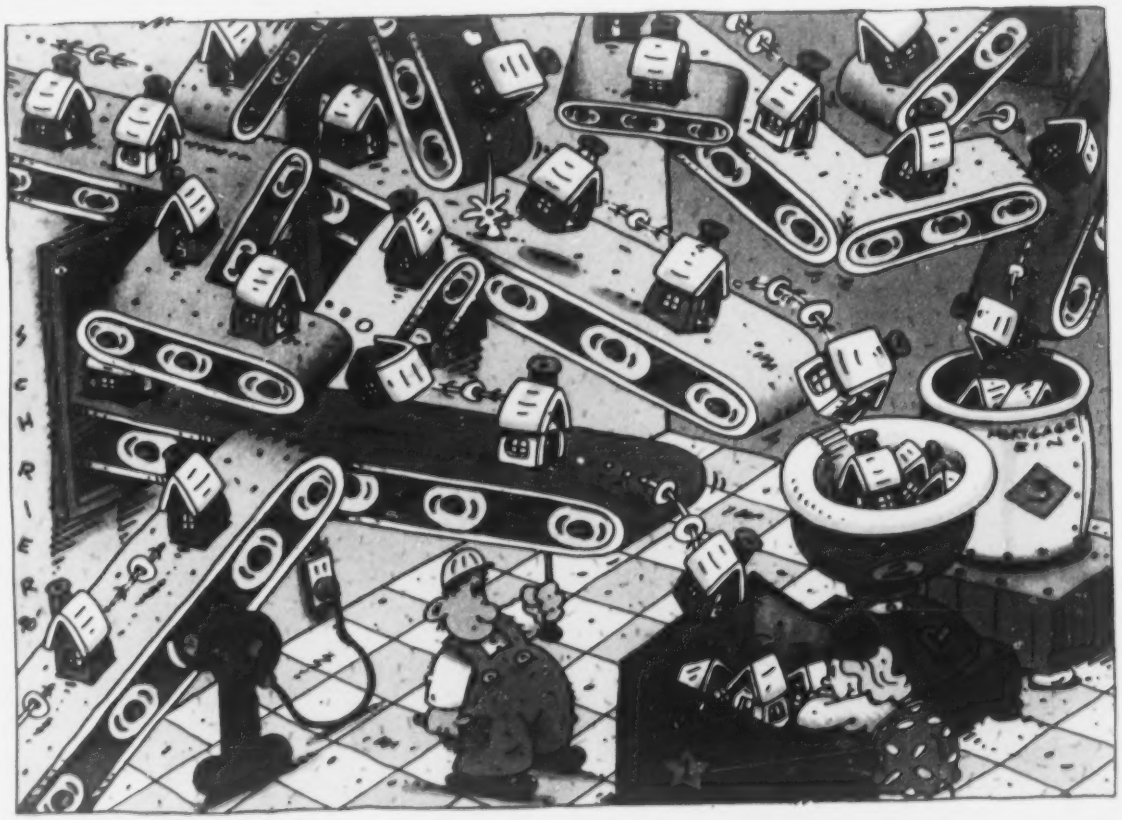
Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6562
Advertising (202) 861-6555
Circulation (202) 861-6992

Mortgage Banking® (ISSN 0027-1241) Published monthly and Copyright ©1990 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association.

Subscription rates: $40 per year, $95 for three years or $25 each for ten or more subscriptions mailed to the same addressee. In Canada, $42 per year, foreign $42 per year. Individual copies, $3.40 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to MBA, Dept. 0021, Washington, D.C. 20073-0021. Letters, manuscripts, change of address and all other correspondence should be sent to *Mortgage Banking*, 1125 15th Street N.W. Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with a new address, send last magazine label.



WHO'S WHO IN WHOLESALE

The big players are pulling in large amounts of new business.

Thomas S. LaMalfa

Wholesale mortgage banking is approaching adolescence and with minimal fanfare. So little, in fact, that our company, Asset Backed Capital Research, Inc. (ABCR) decided to create a monthly journal to chronicle the important developments and trends occurring within this somewhat neglected but booming sector of mortgage finance.

Wholesale mortgage banking, nonetheless, deserves recognition and will likely be among the few sectors of the mortgage market to flourish in the years ahead. The reasons for this are due to the new economics of mortgage banking. *Mortgage Banking* has reported extensively on the reasons behind this metamorphosis, so we will avoid a protracted discussion of the seemingly intractable forces now at work. Suffice it to say that industry segmentation, combined with cost pressures and the realization that the economies of scale in servicing, and the tax benefits derived from purchasing servicing, have altered the cost curve, thereby making wholesaling more profitable. At the same time, the old network of financial intermediaries is breaking down and being replaced by a new, lower cost structure in the primary market.

In this examination of the world of wholesaling, we will start with a few definitions so that we are in accord regarding terminology. Next, we will explore the rationale for this newest form of mortgage banking, discuss the various types of programs, and study the market's phenomenal growth.

The beginning

One of the major mortgage banking developments of the 1980s was the birth and growth of wholesale, or correspondent, mortgage banking. Not long ago, SMR Research, Budd Lake, New Jersey, aptly defined wholesale/correspondent mortgage banking as "a purchase, placement or referral transaction in which there is no direct contact with the borrower."

Wholesaling began in response to the need for alternative forms of gathering mortgages. New methods of generating business were made necessary by the stiff competition for and the high cost of direct mortgage originations. Innovative origination methods were deemed necessary in order to produce mortgage loans at the lowest possible cost, while simultaneously increasing revenue and income.

To accomplish this, mortgage lenders established programs to purchase loans from other originators. The programs borrow much of their structure from the models established by Fannie Mae and Freddie Mac, as well as from the private-sector conduits, such as Residential Funding Corporation, Bloomington, Minnesota, and Sears Mortgage Corporation, Riverwoods, Illinois.

Types of programs

There are four types of wholesale programs: broker, correspondent, bulk and servicing. Broker programs employ mortgage brokers to originate the mortgages. These originators take the applications and process the loans. But the loans are underwritten, closed and funded by the wholesaler, thus the wholesaler assumes the liability. A correspondent program differs from a broker program in that the originators are financial institutions, such as commercial banks, thrifts and mortgage companies. Under both broker and correspondent programs, loans are purchased on a loan-by-loan basis. Loans can also be purchased on a bulk basis in a correspondent program.

In a bulk-purchase program, the wholesaler buys a group or portfolio of closed mortgage loans. Bulk purchases are made on either a servicing-released or servicing-retained basis.

The final type of wholesale program is for the purchase of servicing. In a servicing transaction, the wholesaler purchases only the rights to service the loan, not the mortgage itself. (The wholesaler administers the borrower's monthly remittance and assumes complete responsibility for timely payment to the ultimate holder or investor of the loan or security.)

Countrywide Funding Corporation, Pasadena, California, for example, has both broker and correspondent programs. Countrywide refers to its broker program as its "wholesale" operation or division. By comparison, The Huntington Mortgage Company, Columbus, Ohio has only a correspondent program. Huntington does not deal with licensed mortgage brokers. The type of originator that a wholesaler does business with is the distinguishing characteristic between a broker and a correspondent program. Dollar Mortgage Corporation, LaMesa, California; Diamond Mortgage Corporation, Charlotte, North Carolina; and IMCO Realty Services, Santa Rosa, California, are examples of companies that deal almost exclusively with brokers. Who wholesalers do business with is largely determined by management and appears to be heavily influenced by the compa-

WHOLESALE MORTGAGE BANKING DESERVES RECOGNITION AND WILL LIKELY BE AMONG THE FEW SECTORS OF THE MORTGAGE MARKET TO FLOURISH IN THE YEARS AHEAD.

ILLUSTRATION BY FRED SCHRIER

ny's location.

In addition to these differences in type of originators and programs, products purchased also may vary. Some wholesalers purchase only government loans, others buy only conventionals. Still others buy both. What and how wholesalers buy, along with the services they provide the originator, is what differentiates one wholesaler from another.

Major players

This article will focus on some of the major players in the wholesale mortgage banking market. Exhibit 1 lists 58 of the wholesale lenders monitored by *Wholesale Access*, the monthly journal of wholesale mortgage banking. (Editor's note: *Mortgage Banking* wishes to clarify that the list of wholesalers tracked by *Wholesale Access* for the purpose of producing its rankings is not an all-inclusive one. There are other companies in the wholesale mortgage banking industry that are not included in the lists accompanying this article. At the time this article was written, the wholesalers tracked by *Wholesale Access* numbered 58. As of February, an additional 21 companies were added to the active wholesalers monitored by the publication.)

The data, which we compiled with the assistance of those surveyed, identifies the companies as well as their purchase volumes for 1988 and 1989, and lists their projections for 1990 purchases. Total volume rose from $28.5 billion in 1988 to $51 billion last year. In 1990, projected purchase volume is expected to total $62.2 billion. Note that six companies which were active in 1989 did not purchase loans at all in 1988. These new wholesalers included Covino & Co., Purchase, New York; Crestar Mortgage Corporation, Richmond, Virginia; Diamond Mortgage; NorthEastern Mortgage Company, Inc., Cambridge, Massachusetts; Republic Mortgage Services Company, Columbia, South Carolina; and United Mortgage Company, Denver.

Two major wholesalers, Lincoln Service Corporation, Owensboro, Kentucky, and Fireman's Fund Mortgage Corporation, Farmington Hills, Michigan, refused to disclose their purchases, as did several smaller companies, including N.A. Bancorp Mortgage, Inc., Covina, California; Kislak Mortgage Services Corpora-

EXHIBIT 1

Actual and Projected Purchase Volumes
(in millions of dollars)

Company	1988	1989	1990p
America's Mortgage Co.	$ 515	$ 1,450	$ 3,150
ARCS Mortgage, Inc.	30	160	250
Associates National Mortgage Corp.	1,600	1,200	1,700
BancBoston Mortgage Corp.	1,100	2,600	3,000
Boston Five Savings Bank	195	457	625
Caprock Mortgage Co.	95	265	575
Centerbank	52	61	90
CenTrust Mortgage	309	425	662
Chase Home Mortgage Corp.	554	1,040	1,210
Chemical Mortgage Co.	500	900	1,500
Citicorp Mortgage, Inc.	966	3,100	*
Commonwealth Mortgage Co.	220	495	700
Coreast Savings Bank	20	10	100
Countrywide Funding	2,020	2,060	2,000
Covino & Co.	0	58	250
Crestar Mortgage Corp.	0	60	180
Diamond Mortgage Corp.	0	105	125
Dominion Bankshares Mortgage Corp.	275	750	1,000
Empire of America Realty Credit Corp.	700	1,200	1,300
FBS Mortgage Corp.	650	800	800
First American Mortgage Corp.	74	181	310
First Federal S&L of Rochester	187	300	300
First National Mortgage Corp.	110	120	150
First Nationwide Bank	1,500	400	600
First NH Mortgage Corp.	160	365	450
First Union Mortgage Corp.	800	1,500	1,500
Fleet Mortgage Corporation	1,660	4,030	3,800
Fleet Real Estate Funding Corp.	1,400	2,550	3,500
Greentree Mortgage Corp.	300	450	550
Greenwich Capital Financial, Inc.	511	1,150	2,000
Gulf States Mortgage Co., Inc.	75	81	70
Hamilton Savings Bank	532	953	*
Home Owners Fed	375	1,200	1,600
Household Mortgage Services	650	1,600	2,100
The Huntington Mortgage Co.	157	325	600
Independence One Mortgage Corp.	165	775	1,200
Jersey Shore Savings & Loan Assoc.	26	85	200
Landmark Savings Association	98	160	400
The Leader Mortgage Co.	65	70	100
Marine Midland Mortgage Corp.	2,800	6,000	6,600
Merchants Mortgage Corp.	160	340	250
Metropolitan Financial Mortgage Corp.	115	131	153
North American Mortgage Co.	713	500	800
Northeastern Mortgage Co.	0	175	200
Norwest Mortgage, Inc.	1,000	1,700	3,000
Pacific First Mortgage	180	200	250
Prudential Home Mortgage Co.	2,080	2,618	4,200
Republic Mortgage Services Co.	0	350	1,080
Sears Mortgage Corp.	520	650	1,000
Security Pacific National Bank	200	500	650
Shawmut Mortgage Co.	205	225	225
Sovran Mortgage Corp.	236	460	700
Suncoast Funding Corp.	300	500	600
Talman Home Mortgage Corp.	39	105	150
Travelers Mortgage Services	682	2,300	3,300
TRUSTBANK Savings	270	332	300
United California Savings Bank	376	330	*
United Mortgage Co.	0	75	120
TOTAL	**$28,522**	**$50,982**	**$62,235**

* Not Disclosed

Source: Wholesale Access, February 1990

EXHIBIT 2

Largest Purchase Volumes 1988
(In millions of dollars)

Company	
Marine Midland Mortgage Corp.	$2,800
Prudential Home Mortgage Co.	2,080
Countrywide Funding	2,020
Fleet Mortgage Corporation	1,660
Associates National Mortgage Corp.	1,600
First Nationwide Bank	1,500
Fleet Real Estate Funding Corp.	1,400
BancBoston Mortgage Corp.	1,100
Norwest Mortgage, Inc.	1,000
Citicorp Mortgage, Inc.	966
First Union Mortgage Corp.	800
North American Mortgage Co.	713
Empire of America Realty Credit Corp.	700
Travelers Mortgage Services	682
FBS Mortgage Corp.	650
Household Mortgage Services	650
Chase Home Mortgage Corp.	554
Hamilton Savings Bank	532
Sears Mortgage Corp.	520
America's Mortgage Co.	515
Greenwich Capital Financial, Inc.	511
Chemical Mortgage Co.	500
United California Savings Bank	376
Home Owners Fed	375
CenTrust Mortgage	309
TOTAL	**$24,513**

Source: *Wholesale Access*, February 1990

EXHIBIT 3

Purchase Volumes 1989
(In millions of dollars)

Company	
Marine Midland Mortgage Corp.	$6,000
Fleet Mortgage Corporation	4,030
Citicorp Mortgage, Inc.	3,100
Prudential Home Mortgage Co.	2,618
BancBoston Mortgage Corp.	2,600
Fleet Real Estate Funding Corp.	2,550
Travelers Mortgage Services	2,300
Countrywide Funding	2,060
Norwest Mortgage, Inc.	1,700
Household Mortgage Services	1,600
First Union Mortgage Corp.	1,500
America's Mortgage Co.	1,450
Associates National Mortgage Corp.	1,200
Empire of America Realty Credit Corp.	1,200
Home Owners Fed	1,200
Greenwich Capital Financial, Inc.	1,150
Chase Home Mortgage Corp.	1,040
Hamilton Savings Bank	953
Chemical Mortgage Co.	900
FBS Mortgage Corp.	800
Independence One Mortgage Corp.	775
Dominion Bankshares Mortgage Corp.	750
Sears Mortgage Corp.	650
North American Mortgage Co.	500
Security Pacific National Bank	500
Suncoast Funding Corp.	500
TOTAL	**$43,126**

Source: *Wholesale Access*, February 1990

EXHIBIT 4

Fastest Growing Wholesalers 1989
(In millions of dollars)

Company	1988	1989	% change over 1988
ARCS Mortgage, Inc.	$ 30	160	433.3
Independence One Mortgage Corp.	165	775	369.7
Travelers Mortgage Services	682	2,300	237.2
Jersey Shore Savings & Loan Assoc.	26	85	226.9
Citicorp Mortgage, Inc.	966	3,100	220.9
Home Owners Fed	375	1,200	220.0
America's Mortgage Co.	515	1,450	181.6
Caprock Mortgage Co.	95	265	178.9
Dominion Bankshares Mortgage Corp.	275	750	172.7
Security Pacific National Bank	200	500	150.0
Household Mortgage Services	650	1,600	146.2
First American Mortgage Corp.	74	181	144.6
Fleet Mortgage Corp.	1,660	4,030	142.8
BancBoston Mortgage Corp.	1,100	2,600	136.4
Boston Five Savings Bank	195	457	134.4
First NH Mortgage Corp.	160	365	128.1
Greenwich Capital Financial, Inc.	511	1,150	125.0
Commonwealth Mortgage Co.	220	495	125.0
Marine Midland Mortgage Corp.	2,800	6,000	114.3
Merchants Mortgage Corp.	160	340	112.5
The Huntington Mortgage Co.	157	325	107.0
Sovran Mortgage Corp.	238	460	94.9
Chase Home Mortgage Corp.	554	1,040	87.7
First Union Mortgage Corp.	800	1,500	87.5
TOTAL	**$12,906**	**$31,128**	**141.9**

Source: Wholesale Access, February 1990

tion, Miami Lakes, Florida; Imperial Savings Association, San Diego; and Goldome Realty Credit Corp., Williamsville, New York. (Farragut Mortgage Co., Inc., Waltham, Massachusetts, is not listed because it was purchased by Huntington Mortgage late last year.) The figures include only whole loans purchased, either in bulk form or loan-by-loan, but not retail originations. Servicing transactions were also excluded from the purchase figures.

Exhibit 2 lists the top 25 wholesalers for 1988 in a ranking prepared by *Wholesale Access*. Combined, we calculated that they accounted for 86 percent of total wholesale purchases. Annual purchase volumes ranged from $309 million at CenTrust Mortgage Corporation, Deerfield Beach, Florida to $2.8 billion for Marine Midland Mortgage Corporation, Buffalo, New York. Three companies, Marine Midland Mortgage, Prudential Home Mortgage, Gaithersburg, Maryland, and Countrywide Funding, purchased in excess of $2 billion of mortgages and six others exceeded $1 billion.

There were about a dozen wholesalers who were active market participants in 1988 but who are not listed because they later ceased operations. Because their purchases are excluded, total activity is understated. This partially explains why volume rose so rapidly in 1989.

Large, fast-growing

Exhibit 3 provides *Wholesale Access'* ranking of 1989's 25 largest wholesalers. At least three new companies joined the ranks of the top 25: Independence One Mortgage Corporation, Southfield, Michigan; Dominion Bankshares Mortgage Corporation, McLean, Virginia; and Security Pacific National Bank, Cypress, California. Two others, First Nationwide Bank, San Francisco, and United California Savings Bank, Santa Ana, California, dropped out of the group. Annual purchase volumes ranged from a high of $6 billion at Marine Midland Mortgage to $500 million at North American Mortgage Company, Houston; Security Pacific National Bank; and Suncoast Funding Corporation, Methuen, Massachusetts. For this group, purchase activity totaled $42 billion, approximately $20 billion more than the aggregate from the top 25 in 1988.

Seventeen companies, according to our data, purchased $1 billion or more in mortgage loans compared with eight, one year earlier. In 1989, 13 of the companies buying $500 million or more were owned by commercial banks, three were owned by insurance companies, five had thrift institution parents, and five had parent companies that were neither banks, insurance companies or thrifts.

Exhibit 4 lists the 25 fastest growing companies identified by *Wholesale Access* based on increased wholesale activity from 1988 to 1989. Among these lenders, increases in purchases ranged from 87.5 percent at First Union Mortgage Corporation, Charlotte, North Carolina, to 433.3 percent at ARCS Mortgage Inc., Calabasas, California. Eleven companies we followed increased their activity by 150 percent or more. Four of the fastest growing companies did so from extremely small bases; their purchase volumes totaled $200 million or less in the prior year.

THE OLD NETWORK OF FINANCIAL INTERMEDIARIES IS BREAKING DOWN AND BEING REPLACED BY A NEW, LOWER COST STRUCTURE IN THE PRIMARY MARKET.

Exhibit 5 shows the top 25 wholesalers according to *Wholesale Access'* ranking based on activity levels anticipated for 1990. (The three companies with asterisks by their names established purchase ranges. In all instances, we cited the high-end of the projected range.) To be among those companies listed, projections for purchase volume would have to exceed $700 million. Indeed, all but four of the companies on the list expect to do $1 billion or more in business. Eleven of the companies forecast volume of at least $2 billion. The top 25 project total purchases of $52.7 billion, 85 percent of the $62.2 billion projected by all wholesalers we identified for 1990. Two of the companies listed in this exhibit, Fleet Mortgage Corporation, Milwaukee, Wisconsin, and Countrywide Funding, anticipate modest rollbacks in activity compared with 1989. Two others, First Union Mortgage and FBS Mortgage Corporation, St. Paul, Minnesota, project no change in their level of activity.

Of the 21 companies on the ranking that anticipate growth, individual percentages of growth range from a low of 8.3 percent at Empire of America Realty Credit Corp., Buffalo, New York, to a high of 208.6 percent at Republic Mortgage Services. America's Mortgage Company, Springfield, Illinois, is the only company in addition to Republic that expects to double volume from the prior year's level.

Exhibit 6 lists the 22 companies identified by *Wholesale Access* that expect to increase volume in 1990 from the previous year by 50 percent or more. Except for America's Mortgage, all of the other seven companies looking to increase volume two-fold or better are relatively small companies. However, six of the remaining fourteen companies project purchase volumes of 50 percent or greater than 1989 levels. These companies are Prudential Home Mortgage, Norwest Mortgage Co., Inc., Flanders, New Jersey; Greenwich Capital Financial Inc., Irving, Texas; Chemical Mortgage Company, Columbus, Ohio; Independence One Mortgage and Sears Mortgage.

EXHIBIT 5

Projected Volumes 1990
(in millions of dollars)

Company	1990	% change over/(under) 1989
*Marine Midland Mortgage Corp.	$ 6,600	10.0
*Prudential Home Mortgage Co.	4,200	60.4
Fleet Mortgage Corporation	3,800	(5.7)
Fleet Real Estate Funding Corp.	3,500	37.3
Travelers Mortgage Services	3,300	43.5
America's Mortgage Co.	3,150	117.2
BancBoston Mortgage Corp.	3,000	15.4
Norwest Mortgage, Inc.	3,000	76.5
Household Mortgage Services	2,100	31.3
Countrywide Funding	2,000	(2.9)
Greenwich Capital Financial, Inc.	2,000	73.9
Associates National Mortgage Corp.	1,700	41.7
Home Owners Fed	1,600	33.3
Chemical Mortgage Co.	1,500	66.7
First Union Mortgage Corp.	1,500	0.0
Empire of America Realty Credit Corp.	1,300	8.3
Chase Home Mortgage Corp.	1,210	16.3
Independence One Mortgage Corp.	1,200	54.8
Republic Mortgage Services Co.	1,080	208.6
Dominion Bankshares Mortgage Corp.	1,000	33.3
Sears Mortgage Corp.	1,000	53.8
FBS Mortgage Corp.	800	0.0
North American Mortgage Co.	800	60.0
*Commonwealth Mortgage Co.	700	41.4
Sovran Mortgage Corp.	700	52.2
TOTAL	**$52,740**	**32.3**

Source: *Wholesale Access*, February 1990

EXHIBIT 6

Fastest Growing Companies Based on Projected Growth

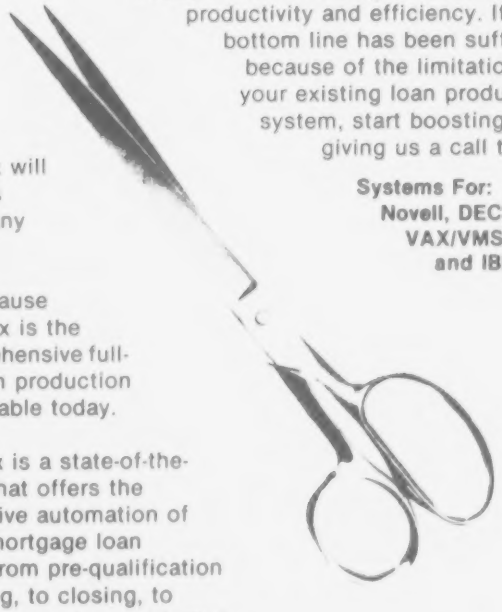
Company	% change over 1989
Coreast Savings Bank	900.0
Covino & Co.	331.0
Republic Mortgage Services Co.	208.6
Crestar Mortgage Corp.	200.0
Landmark Savings Association	150.0
Jersey Shore Savings & Loan Assoc.	135.3
America's Mortgage Co.	117.2
Caprock Mortgage Co.	117.0
The Huntington Mortgage Co.	84.6
Norwest Mortgage, Inc.	76.5
Greenwich Capital Financial, Inc.	73.9
First American Mortgage Corp.	71.3
Chemical Mortgage Co.	66.7
Prudential Home Mortgage Co.	60.4
North American Mortgage Co.	60.0
United Mortgage Co.	60.0
ARCS Mortgage, Inc.	56.2
CenTrust Mortgage	55.8
Independence One Mortgage Corp.	54.8
Sears Mortgage Corp.	53.8
Sovran Mortgage Corp.	52.2
First Nationwide Bank	50.0
TOTAL	**79.3**

Source: *Wholesale Access*, February 1990

Cut Loan Origination Costs Faster With MortgageFlex

MortgageFlex will reduce your resource needs while increasing your company's productivity and efficiency. If your bottom line has been suffering because of the limitations of your existing loan production system, start boosting it by giving us a call today.

Systems For:
Novell, DEC, VAX/VMS, and IBM IAX



MortgageFlex will reduce costs faster than any other loan origination software because MortgageFlex is the most comprehensive full-featured loan production system available today.

MortgageFlex is a state-of-the-art system that offers the most extensive automation of residential mortgage loan production from pre-qualification to processing, to closing, to shipping, to secondary marketing.

MORTGAGEFLEX SYSTEMS INC

9428 Baymeadows Road, Suite 250
Jacksonville, FL 32256

For More Information
Call (800) 326-3539

IBM Business Partner

DEC, VAX are trademarks of Digital Equipment Corporation. IBM AIX are trademarks of International Business Machines.

See Us At Booth 219 At MBA Annual Convention

© 1989 MortgageFlex Systems, Inc.

Growth of market

As the aggregate data indicates, wholesale activity increased nearly 80 percent in 1989 compared with 1988. Current projections suggest market participants anticipate an additional 22 percent increase during 1990. At $51 billion plus, wholesale production accounted for approximately 18.5 percent of all first mortgage loans originated in 1989.

One must ask why the wholesale market is growing so quickly. Certainly, other investor arenas, such as the agency market, are not expanding anywhere near as rapidly.

Reasons for growth

Phenomenal growth of wholesale activity in recent years is due to eight factors. The growth is occurring primarily because wholesale production:

- Supplements retail originations by leveling out the production flow in the back office;
- Aids lenders in building large servicing portfolios quickly;
- Decreases the geographic concentration that results from the local and branch locations most lenders have in place;
- Allows for sufficient production volumes so that hedging and secondary market sales become more cost efficient;
- Does not require large, new fixed expenditures to be incurred for personnel or branches;
- Allows lenders to take advantage of accounting and regulatory changes, such as FASB 65, FASB 91 and the new risk-based capital requirements that favor wholesale lending;
- Allows lenders to take advantage of structural changes in the mortgage market, such as industry consolidation and the advent of the extensive, new broker/originator market; and
- Provides what many view as a less costly, more efficient means of producing mortgages.

Wholesale production's many benefits will allow it to continue flourishing through its adolescence. The new economics of mortgage banking are likely to keep this industry segment thriving into a full and prosperous adulthood. **MB**

Thomas S. LaMalfa is president of Asset Backed Capital Research, Inc., Cleveland.

ECONOMIC TRENDS

Affordability problems arise from a variety of sources. Inadequate income levels and growth, high interest rates, and large down payment requirements are among the most important, but high home prices and rapid home price appreciation are also to blame.

The role of new home construction is particularly important. Today's new home construction constitutes part of tomorrow's national housing stock. Consequently, both the characteristics of new homes and their prices can have important long-run effects on affordability.

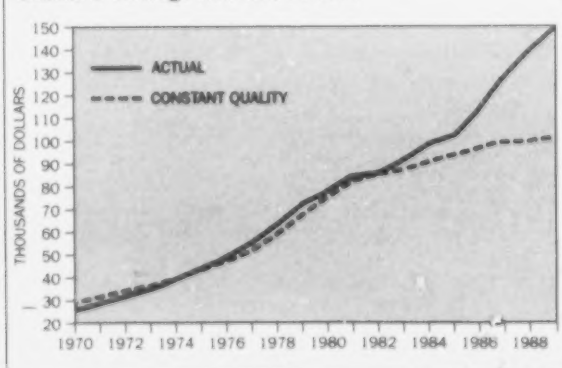
New home prices and their characteristics, like nearly every other aspect of housing market activity in the past 25 years, has been strongly influenced by the baby boom generation. During the 1970s, the maturation of the baby boomers—those individuals born from 1946 to 1964—led to an explosive increase in the number of new household formations and a concomitant surge in the demand for housing. Supply met this demand, but not without a sharp rise in prices. New home prices increased at an 11.1 percent annual rate from 1970 to 1980. Higher overall inflation rates, interest rates that in some years were less than the inflation rate, and expectations of sharply higher home prices in the future also contributed to the rise in prices.

In the 1980s, however, new household formations slowed significantly as the baby boomers continued to age and many had already formed their households. At the same time, the inflation rate decelerated sharply and was relatively subdued during most of the decade. Yet, new home prices still rose at nearly an 8 percent annual rate.

TABLE 1. Characteristics of New Homes Sold

	Percentage of New Homes with the Characteristic			
Characteristic	**1980**	**1985**	**1987**	**1989**
Central air conditioning	63	70	71	76
2½ bathrooms or more	25	29	38	44
4 bedrooms or more	20	18	23	28
1 fireplace or more	56	59	62	65
Garage for 2 cars or more	56	55	65	70
Addendum:				
Average size (square feet)	1,740	1,785	1,905	2,035

CHART 1 Average New Home Prices



What accounts for continued rapid increases in new home prices even with such a sharp change in some of the most important fundamentals? Part of the answer clearly rests on the significant changes in the characteristics of new homes built during the 1980s. During the course of the decade, larger new homes were being constructed with more amenities. The baby boomers probably had a lot to do with the trend. It is true that many baby boomers were squeezed out of homeownership by affordability problems, but many others did become homeowners during the 1970s and enjoyed significant equity growth in their starter homes. During the 1980s, many of these households entered the move-up market, and the type of home they wanted to purchase (and could purchase due to their earlier gains and, often, rapidly increasing two-earner incomes) were larger and had more amenities.

Recently released data on the characteristics of new homes sold through 1989 dramatically illustrate the trends (Table 1). In 1980, the average square footage of new homes was 1,740 square feet; by 1989, for the first time ever, it had risen to more than 2,000 square feet. During the same period, the percentage of homes with two and a half bathrooms or more approximately doubled, while the share with four bedrooms or more rose 8 percentage points, the share with one fireplace or more rose 9 percentage points, and the share with garages for two or more cars jumped 14 percentage points.

To gauge the importance of these added features to rising home prices, the Census Bureau estimates the price of a hypothetical "constant quality" home that has the characteristics of a home built in 1982. Because the features are held constant, it is possible to see how much prices would have changed without additional amenities and how much those amenities contributed to the price increases.

Chart 1 shows actual and constant quality new home prices from 1970 to 1989. During the 1970s, both measures rose rapidly due to the fundamentals discussed earlier, but added amenities did little to boost prices. However, in the 1980s, constant-quality prices rose much less rapidly than actual prices, with the gap between the two measures reflecting how much added amenities contributed to price increases. At an annual rate, constant-quality prices rose just 3.4 percent during the decade.

Will added amenities continue to contribute to increases in new home prices? Probably. As the baby boomers continue to move through the age distribution of the population, their preferences for larger homes with more amenities are likely to persist, and so the housing stock will increasingly consist of larger and more expensive units. This will continue to be an important contributor to affordability problems for first-time homebuyers and, particularly, for those at the lower end of the income scale.

Thomas M. Holloway
Senior Economist

VITAL STATISTICS

INTEREST RATES & YIELDS
1- TO 4-FAMILY MORTGAGES

	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
			CONVENTIONAL[2]					
1989	FHA New Homes[1]	FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
NOV	9.71%	10.36%	9.39%	7.99%	8.13%	9.67%	8.51%	9.77%
DEC	9.70	10.20	9.25	7.92	8.00	9.67	8.39	9.74
1990								
JAN	9.87	10.12	9.34	NA	8.18	9.90	8.41	10.05
FEB	**NA**	**NA**	**NA**	**NA**	**8.30**	**10.11**	**8.44**	**10.31**

SELECTED SECURITIES

		PRIME COMMERCIAL PAPER	U.S. GOVERNMENT				
1989	FEDERAL FUNDS RATE	(3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
NOV	8.55%	8.35%	7.49%	7.77%	7.80%	7.87%	9.28%
DEC	8.45	8.29	7.42	7.72	7.77	7.84	9.36
1990							
JAN	8.23	8.10	7.55	7.92	8.13	8.21	9.63
FEB	**8.24**	**8.14**	**7.70**	**8.11**	**8.39**	**8.47**	**9.84**

CURRENT SECONDARY MARKET YIELDS

1989	GNMA[3]	FNMA[3]	FHLMC[3]
NOV	9.26%	9.31%	9.31%
DEC	9.26	9.34	9.32
1990			
JAN	9.45	9.48	9.47
FEB	**9.64**	**9.63**	**9.63**

SPREADS
(Basis Points)

	GNMA	FNMA	FHLMC
	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.
NOV	139	144	144
DEC	142	150	148
1990			
JAN	124	127	126
FEB	**117**	**116**	**116**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1989	Commitments	Purchases	Outstanding	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	PCs Issued	Applications	Issued
OCT	$2,963	$2,267	$213,482	$6,614	$9,148	$7,555	$7,884	$7,058	$5,387	$5,583
NOV	2,336	2,376	220,118	8,720	8,112	10,948	7,653	7,059	4,408	5,823
DEC	2,495	2,982	228,232	10,136	10,084	7,820	8,718	8,526	10,934	5,305
1990										
JAN	**1,787**	**2,214**	**233,903**	**7,760**	**NA**	**NA**	**NA**	**NA**	**5,032**	**5,249**
1989 TOTAL	27,409	22,518	---	69,764	85,408	86,263	78,589	73,447	60,149	57,522
1988 TOTAL	23,435	23,110	---	54,878	41,271	70,669	44,075	39,777	58,578	56,531
1 MONTH AVG.										
1990	1,787	2,214	---	7,760	NA	NA	NA	NA	5,032	5,249
1989	1,087	1,037	---	4,074	3,492	5,206	3,586	3,408	4,830	4,584
1988	2,254	1,267	---	1,683	2,255	3,037	2,168	1,832	1,651	4,348

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1989	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
OCT	1,423	1,083	340	1,356	1,025	331	174	285	567	397	172	276	492	416
NOV	1,347	1,050	290	1,342	1,043	299	179	296	498	374	171	275	496	400
DEC	1,254	966	288	1,376	1,035	341	140	272	427	415	168	241	501	466
1990														
JAN	**1,625**	**1,191**	**434**	**1,743**	**1,092**	**651**	**194**	**388**	**532**	**511**	**185**	**475**	**636**	**447**
1989 TOTAL	1,374	1,057	317	1,341	1,008	333	179	266	536	394	182	256	504	399
1988 TOTAL	1,488	1,140	348	1,456	1,070	386	235	274	575	404	230	266	544	416
1 MONTH AVG. (SAAR)														
1990	1,625	1,191	434	1,743	1,092	651	194	388	532	511	185	475	636	447
1989	1,659	1,254	405	1,486	1,127	359	288	304	639	428	229	290	563	404
1988	1,339	1,037	302	1,264	985	279	292	212	459	376	259	228	427	350

HOME SALES

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1989	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
OCT	3,490	2,170	7.5	636	363	7.0
NOV	3,560	2,420	8.1	692	363	6.5
DEC	3,560	1,860	6.3	634	361	7.0
1990						
JAN	**3,480**	**NA**	**NA**	**589**	**365**	**7.3**
1989 TOTAL	3,440	---	---	650	---	---
1988 TOTAL	3,594	---	---	676	---	---
1 MONTH AVG. (SAAR)						
1990	3,480	---	---	589	---	---
1989	3,660	---	---	704	---	---
1988	3,200	---	---	574	---	---

VALUE OF NEW PRIVATE CONSTRUCTION PUT IN PLACE

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

Total[a]	1-Unit	2+ Units	Nonresidential
$274.2	$94.8	$18.2	$82.9
272.2	96.0	17.8	82.9
267.6	96.8	17.2	78.0
276.9	**99.5**	**17.2**	**82.5**
276.3	98.0	19.3	81.0
284.5	102.9	19.7	81.2
276.9	99.5	17.2	82.5
286.2	106.4	19.4	82.5
280.4	101.3	21.2	79.5

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
1989															
AUG	$32,336	$6,150	$14,078	$11,603	$121	$2,537	$329	$939	$884	$258	$14,179	$269	$1,054	$10,453	$2,342
SEP	32,284	5,592	13,689	12,431	110	2,460	678	860	451	290	12,069	226	880	8,039	2,727
OCT	31,921	5,496	13,922	12,005	171	3,038	275	953	1,133	407	14,587	6	920	11,157	2,366
NOV	**29,197**	**5,212**	**12,952**	**10,533**	**171**	**3,006**	**650**	**862**	**983**	**280**	**15,036**	**416**	**843**	**10,924**	**2,777**
1988															
TOTAL	383,820	85,307	189,125	101,863	3,331	38,198	4,526	20,591	6,920	3,732	181,372	1,032	24,136	124,106	29,986
1987															
TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
11 MONTH AVG.															
1989	29,006	5,459	12,991	10,067	102	2,568	350	1,080	694	223	12,890	152	1,211	9,361	2,036
1988	31,983	7,168	15,708	8,498	261	3,056	375	1,661	547	282	14,602	73	1,997	10,157	2,192
1987	38,188	9,410	17,604	10,596	281	3,774	210	1,836	697	293	13,496	251	2,047	8,888	2,200

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
1989												
OCT	151	86	19	46	126	$9,619	75	$4,790	16	$1,217	35	$3,612
NOV	136	78	18	40	131	10,024	83	5,332	17	1,326	32	3,366
DEC	116	62	16	38	102	7,971	55	3,542	15	1,193	32	3,236
1990												
JAN	**127**	**77**	**18**	**32**	**118**	**9,041**	**70**	**4,428**	**18**	**1,405**	**30**	**3,208**
1989 TOTAL	1,687	990	194	503	1,274	95,956	726	45,893	183	12,946	365	37,117
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
1 MONTH AVG.												
1990	127	77	18	32	118	9,041	70	4,428	18	1,405	30	3,208
1989	105	59	16	30	121	8,652	76	4,629	17	1,240	28	2,783
1988	110	58	14	38	120	8,246	74	4,453	16	1,143	30	2,650

NA—Not Available. SAAR—Seasonally Adjusted Annual Rate.
[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.
[2]Effective rate on loans closed.
[3]Securities for 0- to 30-day delivery.
[4]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.
[5]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, federal credit agencies, mortgage pools, and state and local investment agencies.
[7]Savings & Loans and Mutual Savings Banks.
[8]FHA applications received includes the Direct Endorsement Program.